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What Lies Ahead?

Uncertainty abounds, but 2014 promises a range of possible market trends

Economists and market gurus make forecasts at the beginning of every year. Sometimes, their predictions are spot on. Other times, they're dead wrong. And some years, potential trends are difficult to predict.

The possibilities for 2014 are exciting. Mortgage professionals may be tempted to declare that the recession is over and the housing market is ready to explode. Realistically, however, there's only one certainty at the beginning of the new year: more uncertainty.

There are lots of economic forecasts in print and online, some optimistic and others not so much. Who is right won't be known for nearly another year. That said, there are some safe bets about what 2014 could bring for the mortgage industry. For instance:

- **Compliance with new regulations will be a major concern**. The new ability-to-repay rule and qualified mortgage (QM) standards commenced this past January. Mortgage professionals will work hard to comply with additional regulations, as well, cautiously feeling their way through Consumer Financial Protection Bureau rules during the first six months of the year.
- **Companies will begin offering non-QM loans**. As lenders work to comply with QM standards, anticipate a strong non-QM market to open for loans that meet the ability-to-repay rule but don't meet QM standards. Buyers interested in these types of loans may have good credit histories but not enough documentation of their income. Other non-QM deals may include loans with points and fees in excess of 3 percent.
- **Mortgage credit will become more expensive**. New regulations designed to protect consumers are a good thing, but compliance often raises costs for lenders — and those costs typically are passed on to consumers. Mortgage professionals also should be aware that Fannie Mae and Freddie Mac's fees to guarantee principal and interest have nearly doubled since 2009, and this coming March, Fannie and Freddie were planning to raise their fees by one-tenth of one percent. It was just announced at the end of this past December that this increase has been delayed with no implementation date set. The Federal Housing Finance Agency wants to increase these fees to make it easier for private companies to compete in the mortgage market. Although this increase has been delayed proving even more the uncertainty of what is to come this year, once this does go into effect, getting credit likely will cost a little more.
- **The mortgage market will become a purchase market**. All indications point toward a market dominated by purchases rather than refinances. The purchase-to-refinance ratio this year could end up along the lines of 80 percent purchase and 20 percent refinance. Although this may be a bold prediction, the purchase market looks undeniably strong.
- **As lenders look for ways to minimize their risks**, they may increasingly turn to third-party companies to provide employment and income verifications. In fact, new regulations specifically require creditors to use a consumer's tax return or reliable third-party records to verify that consumer's income or assets.

To make one last prediction, mortgage credit for home purchases may become easier to obtain. Although this doesn't make the list of safe bets, it could happen. As companies refinance fewer mortgages and interest rates rise, lenders could shift available credit from refinances to home purchases. Meanwhile, as mortgage professionals compete for business, they may offer more loan options and buyers may find it easier to get mortgages on new home purchases.

Although all of these potential trends are worth noting, mortgage professionals probably can expect no major changes this year. There will be challenges and even opportunities, but 2014 probably will be an adjustment year, one of getting used to working within new guidelines and finding the right path to connect consumers with the mortgage products they need.

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